

BASKETBALL '93



One-on-one with David Stern

While some television sports-rights packages have proved to be high-priced Edsels, pro basketball has been a moneymaker for NBC and Turner. NBA Commissioner David Stern talks with BROADCASTING & CABLE's Steve McClellan about the growth potential in new viewers, new teams and new markets, including an expanding global fan club. Stern says the league's dance card for corporate sponsorships is just about filled and that most have re-upped for the new season. The viewership boost of superstation carriage remains a sore spot with the league, but Stern does see room for additional ancillary PPV exposure, about which he says the NBA is "very serious" for the 1994-95 season.

You've said that the NBA is an entertainment company that must be marketed aggressively. Is the NBA the "Disney of the sports world"?

We've got, in effect, 27 theme parks run by the enterprise that is the NBA. That enterprise has national television and national cable. It has local television and cable and national and local radio. And it is very much involved in publishing, home video and merchandising—not to mention sponsor relationships—all on a local, national and international level. And those are related areas to the Disneys and Time Warners and Viacom and Paramounts and Sonys. So we very much think of ourselves as a global entertainment company.

At a time when networks are losing hundreds of millions on their rights

deals with professional baseball and football, NBC and Turner are making money with the NBA. How?

I think it's a combination of the efforts of our teams and league in terms of raising the profile and ratings of the sport, together with our working very hard with sponsors and our policies relating to exclusivity that have, in effect, kept us a network television attraction.

Has the demographic profile of the NBA fan base changed much in the last decade?

I think it's gotten a bit younger and it's expanded a bit to include more women. And I think that, without question, kids are following NBA basketball and all basketball in far greater percentages than ever before.

COVER STORY

The League has an in-house sales department that creates and sells sponsorship packages. How much revenue does that effort bring to the league, and what exactly constitutes a sponsorship package?

It's hard to measure [the revenue that goes directly to the NBA] because very often the sponsors are expressing their faith in the NBA through network television purchases. We consider that to be more important or just as important as any other component. So, when one looks at a Miller Brewing Company, which has an exclusive in the beer category, and the kinds of investment they've made in NBC, to us the sponsorship package is defined by the broader dollar spent [on NBC]. We look for ways to make their purchase more efficient so that they'll continue to invest.

For example, there's the Miller-sponsored All-Star balloting and the utilization of the NBA logos in their marketing efforts. In the case of a McDonald's, which has become a very substantial NBA advertiser on NBC, it might be the premium promotions that were done this past year [e.g., buy a burger, get a free NBA cup]. We tailor individual programs to utilize our sponsors' NBA buys so they get the biggest bang for their bucks. That's the focus, not pay us "X" dollars for a rights fee and get these three things.

You and the league were reportedly instrumental in persuading Miller to commit \$125 million to the NBA on NBC. They must have really loved that All-Star balloting promotion idea.

I think the All-Star balloting was just the promotion of the moment. It could be other things. Miller uses our games [to do promotions] with its distributors. It has used a number of players or coaches for safe-drinking messages.

And if you do that with a number of advertisers, successfully, the quid pro quo is that it helps you in the next rights negotiation?

That's correct.

How many corporate sponsorships do you have?

Nineteen, and I'm not sure how many more we're going to have. We have them in just about all of the major categories, and I think we're getting very close to our maximum.

Have any of the key advertisers re-upped for the next contracts with NBC and Turner?

Yes. A substantial number. But I'm not sure which of them has announced publicly, so I want to be discreet. I know for sure that Miller has announced.

How do you read the sports-TV advertising marketplace for the next year or two?

Under incredible pressure. The demographics that we deliver are available in prime time, so if our prices go up too much, there are those options. I view the late-night wars as yielding all manner of competitors that are going to continue to put our sales under pressure. So it's going to cause us to have to work even harder to make sure that our advertisers feel well served by their investment in NBA basketball.

There are precedent-setting advertising revenue-sharing provisions in the new deals with NBC and Turner. How much do you think you'll earn in shared ad revenues?

I think we're not going to be able to make that judgment until well into each of the deals. The whole point of those is to provide incentive to work as closely as we can with each

network to cause those advertising targets to be met. But we don't have a projection that I want to share now. It might be too low.

The current NBC deal has a contractual provision for the "I Love This Game" promotional campaign, where they air about \$10 million worth of on-air spots. Are there similar provisions in the renewals?

We get a lot of in-game promotional time in the new deals. We have deleted from this contract ongoing out-of-game promotional requirements, except within the normal context of promoting the telecasts.

Why?

In the time since we set the last contract, we've seen so much other advertising done that we are the beneficiaries

David Stern became only the fourth NBA commissioner in February 1984 after six years with the league and several more as its outside counsel.

The 50-year-old New York native joined the NBA in 1978, when it was struggling through some of its darkest days and its image seemed to be defined by drug problems and player-management strife.

Since his promotion to executive VP in 1980, Stern has overseen a remaking of the league's image, using NBA stars and a savvy marketing strategy to draw a wider fan base. National TV rights have increased several-fold on the broadcast side and, in cable, from practically nothing to a new deal with Turner Broadcasting System that will yield \$350 million through 1998. In 1989, the NBA owners rewarded Stern with a five-year contract valued at \$27.5 million.

Before joining the league, Stern was a lawyer with Proskauer Rose Goetz and Mendelsohn in New York, where he represented the league in a number of high-profile cases, including the Oscar Robertson antitrust litigation and its settlement, as well as the merger of the American Basketball Association into the NBA.

of—by athletic shoe companies, and all of the ads that feature our athletes, and so many ads that now feature basketball as sort of a lifestyle approach. But we have substantial in-game promotions for the "I Love This Game" campaign and public-service spots.

The value of local basketball rights is approaching the \$150 million mark, which is less than half the value of local baseball rights. Do you think basketball will catch up anytime soon?

I don't think it can because they've got twice as many programs [games] as we have, with similar ratings. So on any ratings basis, more viewers are delivered by baseball with so many more games. Plus, our over-the-air network games with NBC take additional games out of the local market. Historically, they have been larger at the national [rights] level, but that's changed with respect to these last deals.

Are the local media rights shared among teams, and is that an issue with owners?

No, they're not, and it's not an issue. We think that the

system we have for local versus national works very well. It's important to provide incentive to the local team to make the investment in marketing and public relations and presentation necessary to get a good local package on television and a good local attendance. And our system keeps that revenue with the local team.

All national revenues are shared equally?

Yes, including publishing, home video, trading cards, television and licensing. And it really makes a difference for 21 of our teams between making money and not.

How much revenue does the league generate? The last published figure we saw was an estimated \$840 million for 1991.

We're still less than \$1 billion in combined revenues from all sources, but we're pushing and we're getting up there. We're still, in terms of the entertainment business, a relatively small player.

The profit estimate we saw was approximately \$160 million for 1991. Accurate?

Those are not numbers we usually give out, but if we did, we'd say that was high. Sports is moving toward

"We continue to look at the issues of delivering additional games to fans, possibly by direct broadcast satellite delivery, or cable, or ultimately their telephone lines."

profitability and I think we're as profitable as most, but as far as return on investment or return on equity, it still doesn't equal other businesses or even other entertainment operations.

Are you looking seriously at pay per view for the displaced fan?

Yes, we are. We have our basic pattern of televising set in terms of national television: NBC, TNT and TBS. But we continue to look at the issues of delivering additional games to fans, possibly by direct-broadcast satellite delivery, or cable, or ultimately their telephone lines. We've done that through the creation of NBA Television Ventures, which is run by Ed Desser.

Do you recall projecting that pay per view could become a \$5-million-a-month business?

I don't think in the short run that it's a big business. I think it's an interesting business that will address the, I won't say the displaced fan—it's really what I would call the superfan—who says, "I can't get enough NBA and I want to watch NBC, TNT, TBS and I want to watch my local game, but I want more." I think that's a very small percentage.

Do you have a sense of whether you're close or not in striking a deal with DirecTV or Hubbard to put NBA on DBS?

We've had a lot of very enlightening discussions with DirecTV and we continue to have those discussions. There's no particular timetable because we want to get the opportunity to see them launch and get their programming on

the air, but I think that we could very well be getting very serious in this direction by the '94-'95 season.

A lot has been said about superstations. Do you have a sense of how much revenue, collectively, superstations cost the league every year?

We don't necessarily focus simply on the revenue component. We're an entertainment company and we make money the old-fashioned way: we sell a product and expect people to pay for it. Historically, USA paid for it. ESPN paid for it. TBS also paid for it prior to this current deal. So "superstation" is a misnomer. TBS is the most successful in terms of ratings, as a national cable network. So it's no different, as far as we're concerned, than if somebody decided that it would be a good thing to just walk in and take the motion picture out of the theater and show it to people for nothing. So any network [which we haven't done a rights deal with] that takes those games is taking our product and can't, under our rules, because they haven't bought it from us.

Taking WGN as an example, to use your analogy: They argue that they're not the ones taking the movie and displaying it for free to everybody, it's United Video.

Without getting into the merits there [a WGN suit against the NBA on the issue is set for trial Oct. 18], the fact is they're a national cable network. Their ad department sells them as a national cable network—they split their fees to sell national games. [WGN parent Tribune is] an extraordinarily successful company whose revenues and profits dwarf ours. They routinely, for their many stations, acquire exclusive rights for the programming that they acquire and, indeed, grant exclusive rights for the programming they produce and syndicate. And so they know the business better than anybody, including me. But the fact is that they're a national cable network and we have granted our exclusive rights to NBC, TNT and TBS.

Do you have a sense as to how many more teams will be added to the league?

I think by no earlier than '95-'96 our board seems inclined to add either one or two teams. And the inclination is to look for that expansion exclusively in Canada. Beyond that, I would think that our owners might look, by the end of the decade, to two or three additional teams, including one in Mexico City, which would complete our North American agenda.

How has international viewership of the NBA grown over the last few years, and what's the forecast?

I can't answer you [now] as well as I hope to answer you in a few months with respect to viewership because that would require a tracking and a sophistication of measurement that we don't yet have. I can tell you that exposure-wise, we have gone from 60 countries to some number substantially in excess of 100 that have now seen NBA games.

How much revenue is in there at this point?

I would say we're talking probably something on the order of 1% of our revenues. So there is room for dramatic growth, and ultimately we want to retain more commercial inventory so that sponsors who affiliate with the NBA will ultimately be able to buy globally. We've achieved that result already with global sponsorship sales and NBA-produced programming to Nike, Reebok and Coca-Cola.

NBA's TV-radio revenues bounce higher

More teams opt to bring broadcasting in-house to improve earnings, marketing

By Jim Cooper

The National Basketball Association will likely see another healthy jump in local TV and radio revenues this season, a fact attributed to most teams' do-it-yourself approach to the media.

The revenue has more than doubled since the 1987-88 season, growing from \$63 million to about \$130 million for '92-'93. It is expected to approach \$150 million this season.

Three teams—the Los Angeles Lakers, Utah Jazz and Portland Trailblazers (see box)—retain all rights, so they can produce and sell advertising for broadcast and cable TV and radio and keep all that they earn. And many others are holding broadcast rights and looking to move into cable.

The local revenues will be bolstered this season by an estimated \$248 million in national TV rights fees from NBC and Turner Broadcasting System. The national fees are divided among all of the teams.

NBC and TBS have signed new four-year deals that will kick in with

the start of the 1994-95 seasons. NBC will pay \$750 million plus 50% of the advertising revenues in excess of \$1.06 million. Turner will pay \$350 million plus 50% of the advertising revenues beyond that amount.

(National radio rights are retained by the NBA and are syndicated nationally by NBA Radio.)

Only three teams—the champion Chicago Bulls, the Sacramento Kings and the Milwaukee Bucks—still sell all of their media rights. But Sacramento, which recently changed ownership, is set to join the in-house production trend for the 1994-95 season.

With the new ownership came a new philosophy about the team's marketing, says Joe Marsalla, vice president, corporate sales for Sacramento.

"It benefits the sponsor because they talk to one person," says Marsalla. "It's a better way to control our product; we have a better product and we will make more money."

"We don't do anything in-house because we have a virtual partnership with our stations," says a spokesman

for the Bucks. The team has no plans to change its status, he adds.

For teams in the league's smaller markets, retention of media rights is a way to compete financially (and ultimately on the court) with teams in larger markets. The Portland Trailblazers, despite their small market, are among the league's top five money-makers because of their ground-breaking rights situation (see box). Portland holds the record for selling out games—more than 700 games in 17 years.

Most teams that retain media rights have or are trying to obtain rights to in-arena signage so that they can offer sponsors broadcast-signage packages and control the kind of sponsors to which fans are exposed to. It also permits teams to limit the number of sponsors, which benefits the sponsors and doesn't overwhelm the fan. "Less is more," says Mick Dowers of the Trailblazers.

Promotion through basketball-related programs scheduled around the games has also emerged as an impor-

Portland: the 'mini-Disney' of basketball

By Jim Cooper

When it comes to sports marketing, the Portland Trailblazers live up to their name.

Most NBA teams now retain some of their television and radio rights, producing games and selling advertising as would a station that purchased the rights. But the Trailblazers were the first and now are one of just three teams to retain all TV and radio rights.

Controlling rights is central to the team's aggressive marketing strategy. This allows the team to create packages for advertisers that include signage, merchandising and promotions, says Mick Dowers, vice president, sponsor sales. "We absolutely tailor it."

According to Dowers, 85% of advertisers have multi-year agreements and 90% renew when their contracts expire.

It has paid off. Industry sources place the Trailblazers in the top five money-making teams in the NBA



High-fiving in Portland

with annual earnings of roughly \$10 million. Local broadcasting, cable and signage represent 35% of the team's annual earnings, they say. The team controls all in-arena signage. The remaining earnings come from national NBA TV and radio rights, licensing and ticket sales.

The team was driven to innovate by its small market. "We didn't have the money to keep up the player market; we had to find other sources," says Dowers.

Much of the marketing wizardry that has contributed to the NBA's success was conceived and test-

ed in Portland. "The Trailblazers are the ultimate; they are a model not only in our league, but in all sports," says John Kosner, NBA vice president, broadcasting.

From simple ideas such as placing a microphone on the net, to the revolutionary move of retaining TV and radio rights, Portland has been there first, he says. The team is the "mini-Disney" of basketball. ■

tant part of franchises' marketing strategies.

Two teams, the Boston Celtics and the New York Knicks, have indirect control of their rights through common ownership of their broadcast or cable outlets.

Paramount owns the Knicks and the cable outlet on which the team is seen. The Celtics own WFXT(TV) Boston, but rumors abound that the station is for sale. WFXT will not comment on the rumors, and fuels them by not

confirming that the Celtics will appear on the station this year.

One of the league's youngest franchises, the Charlotte Hornets, has held television rights for two seasons and radio rights since last year.

"It's been a learning process, but we are in control and have created a revenue stream without raising ticket prices," says Steve Martin, broadcast director for the Hornets.

Like the majority of teams in the league, the Hornets still sell rights to

cable systems. Martin explained that the Hornets must use cable because of the team's regional appeal.

Cable rights are still sold by teams in the league largely because negotiation options are usually limited to one cable network. But some teams are not ruling out in-house cable production in the future, regardless of the difficulties in getting widespread carriage.

The Indiana Pacers are currently in negotiations to set up their own in-house cable production. A spokesman

BASKETBALL'S

BROADCASTING & CABLE's rundown of where to find NE

	BROADCAST TV				CABLE			RADIO			
Team	Flagship	# of regular season games	# of stations in network	Contract status (year of years)	Regional network	# of regular season games	Contract status (year of years)	Flagship	# of stations in network	Contract status (year of years)	Notes
EASTERN CONFERENCE / ATLANTIC DIVISION											
Boston Celtics	—	—	—	—	SportsChannel New England	H-40	6/7	WEEI (AM)	43	4/10	Team is negotiating broadcast TV deal.
Miami Heat	WBFS	A-24	4	1/5	Sunshine Network	H-35 A-10	1/5	WINZ (AM)	5	1/5	Team retains radio rights.
New Jersey Nets	None	—	—	—	SportsChannel New York	70	3/10	WQEW (AM)	4	1/2	Team retains radio rights.
New York Knicks	None	—	—	—	MSG Network	H-39 A-34	NA	WFAN (AM)	5	2/3	Paramount owns team and MSG Network.
Orlando Magic	WKCF	A-30	NA	5/5	Sunshine Network	H-37 A-3	5/5	WDBO (AM)	28	2/3	Team retains broadcast TV and radio rights.
Philadelphia 76ers	WPHL	A-7	0	3/3	Prism SportsChannel Philadelphia	H-40 A-20 A-13	3/8	WIP (AM)	10	3/3	Team retains radio rights.
Washington Bullets	WDCA	A-20	0	NA	Home Team Sports	H-30	NA	WTEM (AM)	14	NA	Team retains radio rights.
EASTERN CONFERENCE / CENTRAL DIVISION											
Atlanta Hawks	WTBS	H-19 A-11	0	NA	SportsSouth	H-9 A-11	2/2	WGST (AM)	25	3/4	Turner owns team and WTBS.
Charlotte Hornets	WJZY	H-3 A-20	13	2/3	SportsSouth	H-2 A-18	1/1	WBT (AM)	35	2/3	Team retains broadcast TV and radio rights.
Chicago Bulls	WGN	H-14 A-16	5	4/5	SportsChannel Chicago	H-28 A-17	10/15	WMAQ (AM)	36	3/5	
Cleveland Cavaliers	WOIO	A-20	5	2/3	SportsChannel Ohio	H-20 A-20	NA	WWWE (AM)	34	1/6	Team retains broadcast TV and radio rights.
Detroit Pistons	WKBD	H-13 A-25	7	2/5	Pro-AM Sports	H-23 A-15	2/5	WWJ (AM)	28	3/5	Team retains broadcast TV and radio rights.
Indiana Pacers	WTTV	A-24	0	1/4	None	—	—	WNDE (AM)	25	2/3	Team retains all rights.
Milwaukee Bucks	WVTV	A-30	3	2/3	None	—	—	WTMJ (AM)	37	2/3	Team and WMJ have joint venture featuring graduated rights fees.

for the team says that a deal will be struck by the beginning of this season with Comcast and American Cable of Indianapolis to carry the games. Prime Sports Midwest will likely carry games in areas beyond the reach of the Indianapolis systems.

Three teams have even stepped into the pay-per-view arena. Through their in-house cable operation, the Trailblazers have been offering pay-per-view services for about nine years. Last year, an average of 17,000 homes

ordered each game offered. The team will offer 20 games on a pay-per-view basis this coming season. The San Antonio Spurs will offer 20 pay-per-view games through Paragon Cable of San Antonio, and the Sacramento Kings will offer four telecasts through Sacramento Cable.

One team saw their cable network fold. With the demise of their regional cable network, the Los Angeles Clippers will go without cable this year and are investigating new deals with

cable carriers for next season.

The NBA strongly encourages league teams to take their rights in-house as part of the overall effort to market basketball as a product and not on a cost-per-thousand basis. That includes licensing of products as well as crosspromotional deals with local retailers.

"This is not a short-term but a long-term business," says John Kosner, the NBA's vice president of broadcasting. ■

LOCAL LINEUP

tion on radio and TV for the upcoming 1993-94 season

	BROADCAST TV				CABLE			RADIO			
Team	Flagship	# of regular season games	# of stations in network	Contract status (year of years)	Regional network	# of regular season games	Contract status (year of years)	Flagship	# of stations in network	Contract status (year of years)	Notes
WESTERN CONFERENCE / PACIFIC DIVISION											
Golden State Warriors	KPIX	H-1 A-17	0	1/4	SportsChannel Bay Area	H-38	1/4	KNBR (AM)	2	2/3	Team retains broadcast TV and radio rights.
	KICU	H-1 A-22		1/4		A-2					
Los Angeles Clippers	KCOP	H-16 A-25	0	3/5	None	—	—	KMPC (AM)	7	2/5	Team retains radio rights.
Los Angeles Lakers	KCAL	A-42	6	4/5	Prime Ticket	H-42	NA	KLAC (AM)	12	4/5	Team retains all rights. Prime Ticket and team have common ownership.
Phoenix Suns	KUTP	H-4 A-37	0	3/5	Arizona Sports Program Net.	H-34	1/8	KTAR (AM)	12	3/4	Team and KUTP have joint venture. Team retains radio rights.
Portland Trailblazers	KGW	H-2 A-18	0	2/3	Blazer Cable	H-23 A-2	NA	KEX (AM)	34	3/6	Team retains all rights. Team owns cable network.
Sacramento Kings	KRBK	H-2 A-36	0	3/3	Sacramento Cable	H-4	NA	KFBK (AM)	5	3/3	Sacramento Cable offers 4 games on PPV basis.
Seattle Supersonics	KSTW	A-18	0	1/3	Prime Sports Northwest	A-18	4/5	KJR (AM)	19	NA	Team retains broadcast TV rights.
WESTERN CONFERENCE / MIDWEST DIVISION											
Dallas Mavericks	KTVT	H-1 A-24	0	NA	Home Sports Entertainment	NA	5/5	WBAP (AM)	37	NA	Team retains broadcast TV and radio rights.
Denver Nuggets	KWGN	H-11 A-14	0	1/3	Prime Sports Network	H-17 A-6	6/10	KOA (AM)	20	2/3	Team retains broadcast TV and radio rights.
Houston Rockets	KTXH	A-41	0	1/4	Home Sports Entertainment	H-40	5/6	KTRH (AM)	29	3/7	Team retains radio rights.
Minnesota Timberwolves	KARE	H-5 A-3	6	NA	Prime Sports Upper Midwest	H-13	5/13	KFAN (AM)	50	5/6	Team retains broadcast TV and radio rights.
	KITN	H-3 A-12	0	2/2		A-12					
San Antonio Spurs	KSAT	A-25	3	3/5	Paragon Cable San Antonio	NA	NA	WOAI (AM)	8	4/5	Team retains all rights. Paragon offers games on PPV basis.
	KABB	A-16	0	1/3							
Utah Jazz	KJZZ	H-8 A-20	0	NA	Prime Sports Network	H-3 A-21	1/3	KISN (AM)	21	1/3	Team retains all rights. Team owns KJZZ.

NA—Not Available or Not Applicable H—Home A—Away

Unless otherwise noted, teams sell rights to TV or radio outlets. Contract status refers to rights deals in cases where team sells rights or time buying deals where team retains rights. Broadcast TV and radio networks do not include flagship(s).